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SUBJECT: HIGH HOPES FOR LIQUID GOLD

Classified By: ECON Chief S Driano, reason 1.4(D)

**¶1.** (C) Summary: To much fanfare, Kosmos Energy, a Dallas-based oil company, announced that an exploration well in deep water about 30 miles offshore of Ghana's West coast had hit oil. While further exploration is required before the commercial viability of the find can be confirmed, the local Kosmos representative, George Owusu, indicated that he is very confident there are commercial quantities based on the characteristics of what has been found thus far. The Ghana National Petroleum Corporation (GNPC) director general, M.O. Boateng, was somewhat more cautious about asserting the scope of the find but is also clearly expecting follow-on drilling to reveal significant quantities of oil. Under best-case scenarios, it will be at least 3 years before commercial oil production could begin. End Summary.

**¶2.** (SBU) Kosmos Oil holds a 30.8% stake in the West Cape Three Points oil block and is the operator of the block. The other owners are a Houston based firm, Anadarko, a UK firm Tullow, and Ghana's National Petroleum Corporation, which, by law, is granted a 10% share of any oil resource. The block is one of several in the Gulf and the oil discovery is from a geological structure that straddles into the adjacent block in which Tullow has a 60% stake and Kosmos and Anadarko have 20% each. Amerada Hess and Vanco, both US firms, have control of two other blocks to the South of the block where Kosmos found oil.

**¶3.** (C) The local Kosmos rep said that there is a block that has not been claimed just to the southeast of the block where they struck oil and Kosmos is interested in obtaining it but has not stated so publicly. GNPC said there were two blocks closer to the Togolese border that have attracted commercial interest recently, with a deal for one of the blocks involving two U.S. firms as part of a larger consortium block likely to move forward. A key constraint in developing the current find is equipment availability. Neither Kosmos, nor its partners, own rigs or drilling equipment. Kosmos just barely met the three year deadline to undertake drilling that was stipulated under its agreement with the GoG. The rig used for the exploration in the West Cape Three Points block is headed to a site offshore of Benin. It was slated to go to the Gulf of Mexico after that but Kosmos is hoping to obtain its services for additional drilling in July. Even if they succeed, additional appraisal wells will be needed. It will be September or October at the earliest before the work can be done.

**¶4.** (SBU) In addition to the offshore oil prospects, Boateng said that GNPC believes there are strong prospects for finding oil in the Voltaine landmass (basically the area including and surrounding Lake Volta. GNPC is in the process of developing preliminary data; it has done aero-magnetic surveying and expects to start aero-gravity surveys in August. The data will enable them to identify promising areas for further seismic testing. Boateng said they are looking for help, government or private sector, to enable them to accelerate the research process and are willing to

offer firms a first right of refusal for development in exchange for technical assistance with data gathering.

15. (SBU) The Kosmos find is not Ghana's first oil discovery. The Salt Pond field offshore from Takoradi produces about 700 barrels a day. GNPC holds a 45% stake in Salt Ponds; Lushan Oil, a U.S. firm, holds 55%. According to GNPC the crude from Salt Ponds is sent to the Tema Oil Refinery. The hope for commercial quantities of oil in Ghana is not new and Ghana's legal and regulatory framework for oil is fairly well defined and established. GNPC has responsibility for oversight of exploration and exploitation.

The Petroleum Exploration and Production Law requires investors to give a 10% stake to GNPC at no cost and pay a royalty on gross income that is negotiated but usually falls between 4% and 7.5%, depending on the level of risk. The Petroleum Income Tax law sets a 35% income tax on oil company profits. These provisions are similar to the arrangement under the Mining Code. The royalty is supposed to be used to support community development in affected areas. The petroleum sector's fiscal and regulatory frameworks are being reviewed and proposed legislative changes may be presented to Parliament this summer. Under consideration are changes that would more clearly specify the royalty rates and introduce new requirements related to decommissioning in an attempt to address environmental concerns.

16. (C) GNPC has a somewhat checkered past. In 2003, a tanker of oil from the Salt Pond field went missing and has never been accounted for, a fact that has resurfaced in the press since the oil discovery. In addition, the previous Managing Director of GNPC is mired in a long-running court case under which he has been charged with causing financial loss to the State for his role in guaranteeing a loan to a

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cocoa farm that GNPC had to pay. Some observers believe the case is politically motivated as the previous Managing Director was close to President Rawlings and the law on financial loss was not in place at the time the guarantee was made, but did exist when the guarantee was paid out. The prospect of GNPC being caught in political battles in the future is relatively high and could affect decisions about block allocations and resource utilization.

17. (SBU) While this is not Ghana's first oil strike, it is the first that shows indications of being a significant find. GoG officials have been quick to publicly acknowledge that oil has not brought much good to the people of many oil-rich African countries. President Kufuor has vowed that Ghana would learn from the mistakes of others.

18. (C) Comment: If commercial reserves are confirmed, Ghana's capacity to manage the resource well remains to be seen. Unlike in many other African countries, the prospect of oil is coming at a time when the country is stable and has demonstrated sound economic and fiscal management. Ghana's performance on governance is better than many African countries, as borne out by World Bank, Transparency International and other studies. Ghana's experience with gold, its other major natural resource, has not been ideal (e.g., there are significant problems of illegal mining and poor environmental practices), but it has not been characterized by massive corruption or wealth accumulation for government officials. Nonetheless, democratic institutions are weak and there is a growing concern about corruption, financial fraud and narcotics trafficking. The discovery of oil further raises the stakes in the 2008 presidential and parliamentary election and the future management of this sector depends heavily on who gets elected in what promises to be a tight race. End comment.